Statement of Michael Bergey
President, Bergey Windpower Co., Norman, OK

"The Impact of Energy Policy on Small Business"

Subcommittee on Investigations and Oversight
Committee on Small Business
United States House of Representatives

August 25, 2009

Dear Chairman Atmire, Representative Fallin, and Representative Boren

Thank you for the opportunity to present my views on the impacts of federal energy policy on small business.

Bergey Windpower Co. is a 30 year old family-owned small business in Norman, Oklahoma. We manufacture small wind turbines for homes, farms, small businesses. Our wind turbines are also used for remote power systems on cell phone antenna sites and for village electrification. We are the third largest manufacturer of small wind turbines in the world, we have installations in over all 50 States and over 100 countries, and we have a wholly-owned subsidiary in China that manufactures and sells Bergey wind turbines throughout Asia. We have 65 employees and we buy products and services from ~ 350 companies, including over 200 in Oklahoma.

The small wind turbine business has been difficult for most of our company's history because of low energy prices and the lack of incentives for us and our customers. We formed the company out of research work at the University of Oklahoma in 1977 during the energy crisis stemming from the Arab oil embargo. At the time there were federal and state tax credits that, while imperfectly crafted, did create an active market. When those tax credits were allowed to expire in the wake of the collapse in energy prices in 1986 we experienced over a 90% drop in revenues. We took draconian measures to keep our doors open and went overseas to find niche markets were conventional power generation solutions (e.g., diesel generators) were unattractive. We are the only U.S. small wind turbine company to survive this market crisis.

Our primary product, a 10 kW wind turbine for homes, was developed and brought to market in 1982 and 1983 with financing from our local bank guaranteed by the SBA. That $400,000 loan was instrumental in positioning Bergey Windpower for our survival in the down market and the relative

success we enjoy today. Our local bank, on the other hand, did not survive the Oklahoma energy industry meltdown in the mid-1980's.

During the 15 years from 1986 to 2002, while the world was awash in cheap energy, federal programs were critically important to us. We took advantage of Commerce Department trade missions, Energy Department cooperative research programs, and US-AID (& US-DOE) foreign assistance programs. I think it is fair to say that we would not have survived without the leveraging these federal programs provided. None were very large, most required cost-sharing, and most no longer exist.

Small wind does not qualify for the Section 45 production tax credit that has propelled the commercial wind industry to 42% of new generation capacity last year and industry revenues of $17 billion. If this hearing was held a year ago, I would be complaining about our technology's treatment in the federal tax code. A year ago an American homeowner could get a federal tax credit on a Japanese solar module, but not on an American small wind turbine. This strange discrepancy in the tax code was established in the 2005 energy bill and stands, to my mind, as a good example of the disadvantages small businesses face in Washington.

Fortunately for us, the Congress rectified this situation in the "Stimulus Bill" (ARRA) a few months ago and we now look forward to seven years with a Section 25 30% federal tax credit for our customers. Recession notwithstanding, we expect this policy to help us create hundreds of new "green collar" jobs in the next five years as we are finally be able to move our products into mass production. Higher manufacturing volumes will allow us to lower prices. Increased domestic sales will also improve our competitive position worldwide, which we expect will lead to a significant expansion of our exports.

Though we are in the energy business we do not enjoy any of the tax saving subsidies of the fossil fuel industry, such as the depletion allowance or intangible drilling costs. As a Sub-S corporation we pay the top marginal taz rate on the majority of our income. We have built up a large surplus of Research & Development Tax Credits over the years but basis limitations keep us from using all but a small percentage. The rules for these credits seem to be intended for large businesses.

As a 100% renewable energy company, it should not be surprising that we are supportive of the new administration's swerve away from favoring coal and towards favoring clean energy. We share President Obama's view that promoting clean technologies is good for the economy. For example, the fuel for a wind turbine is free, so the costs for wind energy production are dominated by manufacturing, installation, and maintenance costs, which creates lots of jobs. There really is economic opportunity in the growth of "green collar jobs". In Western Oklahoma, which is rich in wind resources, commercial wind energy development is pulling local economies back from the brink and offering young people the prospect of well paying, stable, long term jobs close to their family.

We support the emerging National Renewable Energy Standard (RES) and the US-DOE goal of obtaining 20% of our nation's electricity from wind power by 2030. The "20% wind plan" has been popularized by T. Boone Picken's. We fully support the other half of Mr. Picken's plan as well, which calls for a huge increase in the use of natural gas for transportation. We hope the Congress will increase incentives for

clean energy vehicles and help underwrite the development of the CNG delivery infrastructure that we need to mainstream this emerging and extremely important domestic transportation fuel.

We have heard the complaints of those that say the proposed RES plan will increase manufacturing costs significantly and cost thousands of American jobs, but we think that those potential detrimental impacts have been exaggerated. For the vast majority of manufacturers, the cost of energy is a very small component of total manufacturing costs. At Bergey Windpower, for example, our electricity and natural gas costs were 0.86% of our total manufacturing costs last year. By comparison, our costs for employee health care were 4.35% - five times as much as our energy costs. Just a few years ago we, like every other manufacturer, saw steel and copper prices nearly double, which increased our manufacturing costs by nearly 15%. There is no chance that even an aggressive RES or carbon control plan could make that sort of impact on our costs. We have no concerns that the RES, if passed, will erode our domestic or international competitiveness in manufacturing. We strongly believe that we can do more to affect our manufacturing competitiveness with our investments in new product design and manufacturing productivity than we could ever achieve with cheaper, or even free, energy.

Our support for the RES is not based on a business opportunity for Bergey Windpower. The RES is not a business opportunity for us because we do not make, or plan to make, the very large wind turbines that the RES will promote. Small wind systems are more expensive than large wind turbines, on a per kilowatt basis, so the utilities will never use small wind turbines to meet renewable energy mandates.

For the small wind turbine industry and the homeowners, farmers, and small businesses we serve, there are some needed federal policies that we think would clear barriers and help accelerate the growth of jobs in our industry. Let me mention two:

1. We need to end the private tax on interstate commerce in the form of local requirements for in-state Professional Engineer (PE) approval of wind turbine towers. When we supply a tower with one of our wind turbines we not only stand behind it though our warranty and products liability exposure, we also provide a 35-page detailed structural analysis to the latest version of the International Building Code (IBC). This analysis is customized, per the IBC, for the customer's location (wind class, soil strength, seismic, etc.) and it is stamped by our in-house PE-licensed structural engineer. But then that analysis must be reviewed and independently approved ("stamped") by a Professional Engineer licensed in the customer's state. It's as if the laws of physics and rules of engineering differed State-by-State. Although these local engineers often lack any experience in tower engineering, they can nonetheless charge fees of $1,000 to $8,000 for an hours' work and 1/100 of a cent in ink. The consumer gets nothing of value for this "check" on our engineering. I believe we need a federal exemption for small wind turbine towers that already have a PE-stamped structural analysis to the latest State building code (usually the International Building Code). This preemption was done in California with no adverse consequences and we believe it would be good national policy, ending waste and supporting "green collar" jobs development.

2. We believe that the federal laws granting consumers the right to install small renewable energy systems on their premises and connect them to the utility grid need to be strengthened to end abuses by some utilities. Consumers, including small businesses, were granted rights to install and operate small scale renewable energy systems in 1978 by Section 210 of PURPA. But some utilities, particularly rural cooperatives, have denied consumers these rights by exploiting loop-holes in the law to raise the consumer's costs above economic viability. For example, some utilities have set requirements for new insurance coverage that costs more than the value to the electricity generated by the wind or solar system. These in spite of the fact that there are rigorous UL standards to ensure consumer safety and all utility contracts have "hold-harmless" liability clauses. In 30 years of wind and solar industry experience and billions of operational hours there has never been a reported injury to a utility employee. It is nothing more than a ploy to limit competition. A number of state Public Utility Commissions (PUC's) have restricted these abusive practices, with no resulting adverse impacts on their utilities and ratepayers. Unfortunately, many PUC's lack jurisdiction over all utilities in their state and FERC lacks a workable program to address abuses. This is not net metering, it's the rules of the road for interconnection with the electrical grid. We believe that federal legislation is needed to limit the requirements that utilities can impose on small scale renewable energy systems up to 100 kW.

In closing, we are very appreciative of the helping hand that federal programs have provided us at various times over the last 30 years. For us, federal programs, many covering aspects of the energy business, have been more help than hindrance. We are particularly appreciative of the brand new tax credit for small wind, which we had been advocating for the last 23 years. We are supportive of the direction in which the Obama administration and the Congress are taking energy policy and we look forward to helping to build a major new clean energy industry.

Thank you again for this opportunity to share my views.